Chapter 4

How Good Is the Work?

Formality, Wages, and Productivity

Many labour laws have overlapping jurisdiction, giving the impression of fortifying the bargaining strength of the organised labour. But surplus labour willing to work at subsistence wages gives enormous power to employers, whose interests lie in circumventing the laws. A way out of the dysfunctional regulatory regime is to simplify the laws, along with their strict enforcement.

-Nagaraj (2018)

The demographic dividend that is often touted as India's competitive advantage is critically dependent on meeting the growing aspirations of those entering or wishing to enter the labour force. To satisfy these aspirations, India's economy needs to create more jobs than are currently being created, and critically, more 'good' jobs.

There is no clear definition as to what a 'good' job is. Broadly, it could be defined to mean a job that pays well, is safe, secure, and meaningful, helps to improve the skills and productivity of the worker, and allows for adequate leisure. Given that, for the majority of the population, wages and salaries are the most important source of income, having a remunerative and meaningful job becomes very important.

Defining and measuring the quality of work is difficult. What is considered a good job depends on the level of economic development. In a very poor economy, it may be any job that pays above subsistence wage. On the other hand, a job that can buy amenities, but is not secure, could be considered a poor job in richer economies. Similarly, the perceived quality of jobs is dependent partly on the characteristics of the labour force; given the same profile of jobs, a less educated labour force may perceive a larger number of good jobs than a more educated labour force.

In line with ILO guidelines, we can categorise a job as 'good' if it:

a. generates earnings that are sufficient to maintain a decent quality of life and which are distributed in a way that broadly benefits a large body of the working population.

b. provides security and social protection such that the risks of unemployment are limited and, in instances where the labourer is unable to obtain employment, s/he is able to fulfil basic needs through elements of social protection such as unemployment or pension benefits.

c. ensures a safe and healthy work environment in which other non-wage aspects of employment, such as working relationships, are suitably desirable.

d. enables labour to develop its capacities on the job, and partake of the fruits of technological advancement and more efficient production techniques.

Work that adheres to the above conditions need not come from any one sector, nor even necessarily in the form of wage work.

Importantly, none of the above are 'automatic' results of economic growth. Rather, to realise them we must invest in a robust set of labour market institutions that are sensitive to changing economic conditions while reflecting core values of social justice and democracy.

This chapter examines the quality of jobs in the Indian economy mainly through two lenses: that of formality or informality, and that of the level of remuneration and its growth.

There are significant data challenges in measuring the quality of work in the Indian economy. The only nationally representative data sources going back far enough in time are the Employment-Unemployment Surveys of the NSS (NSS-EUS). However, this survey has not been conducted since 2011–12. For more recent statistics, the only available source is the Labour Bureau's EUS (LB-EUS), the most recent of which is from 2015–16. In this chapter, we rely on both these surveys, supplementing with field studies as appropriate. The issue of comparability of the LB-EUS with the NSS-EUS is discussed in the chapter on Methods. Here, we only note that the basic statistics on quality of work are very similar in the two surveys, strengthening our case for comparability.

In 2015, non-regular workers constituted 80 per cent of all employment. This is higher than the world average of 75 per cent as per ILO estimates.

4.1 / Formal Employment: Definitions, Degrees and Trends

The Lewis Process requires a movement of workers from the subsistence sector to the more productive modern sector. Despite maintaining a higher growth rate since the mid-1980s than ever before in its independent history, India's record in this regard has been poor. In particular, growth has failed to generate adequate high-quality employment, even as the population and the labour force have grown rapidly. Therefore, bringing more of the population into the modern, productive economy, and improving economic outcomes, is critical.

As we saw in Chapter Two, in 2015, India's workforce, by principal and subsidiary status, was estimated to be 467 million. Of this, 47 per cent were self-employed, 36.5 per cent were casual wage workers, while 17 per cent were regular wage workers (Figure 4.1). The NSS and the Labour Bureau adopt comparable definitions of these categories. The 'self-employed' are those workers who operate a farm or non-farm business on their own, either by themselves or with paid or unpaid workers. The distinction between 'regular' and 'casual' workers is blurry. As per the NSS, regular workers are those who work for wages in someone else's farm or non-farm enterprise, for a salary or wage on a regular basis. The key criterion for being considered a regular worker is that the work contract should not be one that is renewed daily. Casual workers are workers employed on a daily or other periodic basis, based on the demand for labour. These workers do not have long-term arrangements with any employer (Ministry of Statistics and Programme Implementation 2014, p.17). To these NSS categories, the Labour Bureau has added the category of contract worker defined as any worker hired, supervised and remunerated through a contractor, who in turn, is compensated by the establishment.

In 1987, 55.5 per cent of workers were self-employed. By 2015, this had fallen to 46.6 per cent. Correspondingly, the proportion of regular wage workers rose from 15.6 per cent to 20.6 per cent (Table A4.1 in online Appendix). While this constitutes progress, the rate could perhaps be much higher. In 2015, non-regular workers constituted 80 per cent of all employment. This is higher than the world average of 75 per cent as per ILO estimates.[1] If only wage workers are considered and the self-employed are excluded, then 68 per cent were in informal wage employment in 2015.

However, the regular versus casual distinction underestimates the extent of informal employment. Since 2000, the NSS-EUS has been collecting information on the provision of social security benefits and availability of written contracts. The recent Labour Bureau surveys continued to collect this information. As we discuss below, if either of these are taken as indicators of informality of employment, then the share of informality increases considerably.

In the following section, we focus primarily on wage workers. Note that enabling the transition from own-account work to wage work that comes under the purview of labour legislation, is part of the Lewis Process.

Figure 4.1 : ***Regular Salaried Workers Account for 17 per cent of the Workforce***

Sources and notes: **LB-EUS 2015.**

[1] Temporary, casual and self-employed account for 75% of workers.

4.1.1 / Organised-Unorganised and Formal-Informal

At the outset, it is useful to clarify the distinction between two dichotomies in the labour market. The first is the division between the organised and unorganised parts of the economy, defined largely by the size of the workplace and accompanying government regulations regarding working hours, hiring and firing norms, rights of association, minimum wages, and other aspects of employment.

The second is the distinction between formal and informal work, defined by the nature of the labour contract. The 17th International Conference of Labour Statisticians defines informal employment as those jobs where '...employment relation is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.)' (ILO 2003).

Table 4.1 displays the two dichotomies. The type of enterprise (organised-unorganised) is overlaid alongside the type of work (formal-informal). This provides a conceptual framework for identifying informal employment which includes work in unorganised sector, as well as in the organised sector that is not subject to regulation (Hussmanns 2004). Further, the vast self-employed sector, consisting of those who work for themselves, is also outside the scope of most laws pertaining to wages and working conditions.

In India, this framework has been broadly adopted in the definition provided by the National Commission on Enterprises in the Unorganised Sector (Sengupta et al. 2007), which identified informal workers as those 'working in the unorganised enterprises or households, excluding regular workers with social security benefits, and the workers in the formal sector without any employment/ social security benefits provided by the employers'. By this definition, which includes the self-employed, over 80 per cent of the workforce would fall into the informal category.

Table 4.1 : ***Organised-Unorganised and Formal-Informal Employment***

		Enterprise Type	
		Organised	Unorganised
Employment Type	Formal	Regular salaried work with some job security and benefits, in enterprises employing 10 or more workers.	Regular salaried employment with some benefits, in enterprises employing less than 10 workers.
	Informal	Various types of contract work and employment of short duration, without job security, in enterprises employing 10 or more workers	All types of casual work, work for daily, weekly, or monthly wages, and self-employment with no benefits or security, in enterprises employing less than 10 workers.

4.1.2 / Degrees of Formality and Informality

The actually existing diversity of labour contracts makes any clean division between 'formal' and 'informal' difficult. We find, instead, degrees of formality and informality. For example, the availability of social security benefits alongside employment seems to be the overriding identifier of formality of employment. However, there have been multiple interpretations of what constitutes social security benefits and consequently, multiple operational definitions of formal employment. For instance, studies have taken the availability of paid leave (Rani and Unni 2004), the provision of provident fund (Sastry 2004), the availability of a written contract (Kolli and Sinharay 2014), or a combination of indicators (Unni and Naik 2018), to gauge formality of employment.

Since information on social security benefits has only recently begun to be collected, studies have typically used a regular versus casual distinction to distinguish formal wage workers from informal ones. 'Regular work' is an expansive definition of formality. For example, a worker in a microenterprise who has no written contract or benefits, but is being paid a monthly salary on a long-term basis, would count as a regular worker.

The year 2017-18 has witnessed a controversy over the definition of a formal job. There is no problem per se in adopting any reasonable and consistent definition, but in this instance, the controversy over the definition is really a debate over job creation. We review this debate in Box 4.1. Ultimately, however, the exact definition is less important than the trend in job creation. The question is, is the economy able to create formal jobs (however defined) in desired numbers?

Box 4.1 / **The Debate over 'Formal' Jobs**

The first half of 2018 has seen a controversy about the quantity of formal jobs created as well as the definition of a 'formal job'. New analysis of the Employee Provident Fund Organisation (EPFO) database suggests that household surveys may have underestimated the pace of formal job creation (Ghosh and Ghosh 2018). In 2017, 4 million new employees were added to the EPFO database. With an annual increment to the labour force of between 6 and 12 million (depending on assumptions about what fraction of those entering the working-age population is entering the labour force), this constitutes between one-third or two-thirds of new jobs. This, in turn, suggests that the production of jobs of reasonable quality has increased, albeit not at the pace required to absorb available labour.

One needs to be cautious, however, in interpreting such administrative data. First, the findings run counter to the information coming from labour surveys and other evidence about falling aggregate employment. Moreover, it is unclear whether these are new jobs or simply increased numbers arising out of compliance with laws for existing jobs, given the incentives advanced to firms for enrolling their employees. While such enrolment is to be welcomed from the point of view of employee welfare, such conversion of informal employment to formal employment should not be confused with net new job creation. Second, representative household surveys cover the entire population and therefore give a net picture that takes into account job creation and destruction in the entire economy. Analyses based on EPFO numbers or other similar sources, on the other hand, only give a partial picture of job creation. It is worth remembering that the EPFO share of total employment is still only around 12.5 per cent.

Also see:
Ninan: EPFO's employment data is very cheery, but needs a reality check
Arun Kumar: Job growth or number jugglery

If we include benefits and a written contract, then a mere 17 per cent of wage workers in the Indian economy had access to formal employment in 2015.

We develop three increasingly strict definitions of formal employment for non-agricultural wage workers. The broadest definition is simply 'regular worker' (we call this Formal 1). The second definition (Formal 2) is regular work with availability of one of the following social security benefits: provident fund or pension, gratuity, healthcare/maternity benefits, or paid leave. The third, and strictest, definition (Formal 3) is the above plus a written contract. This is the strictest because data reveal that workers who have a written contract are much more likely to satisfy the other two criteria than the other way around.

We exclude wage workers in agriculture from the analysis because, irrespective of the definition used, with the exception of some plantation workers, almost the entirety of the agricultural workforce is in informal employment, working as casual workers, without written contracts and social security entitlements.

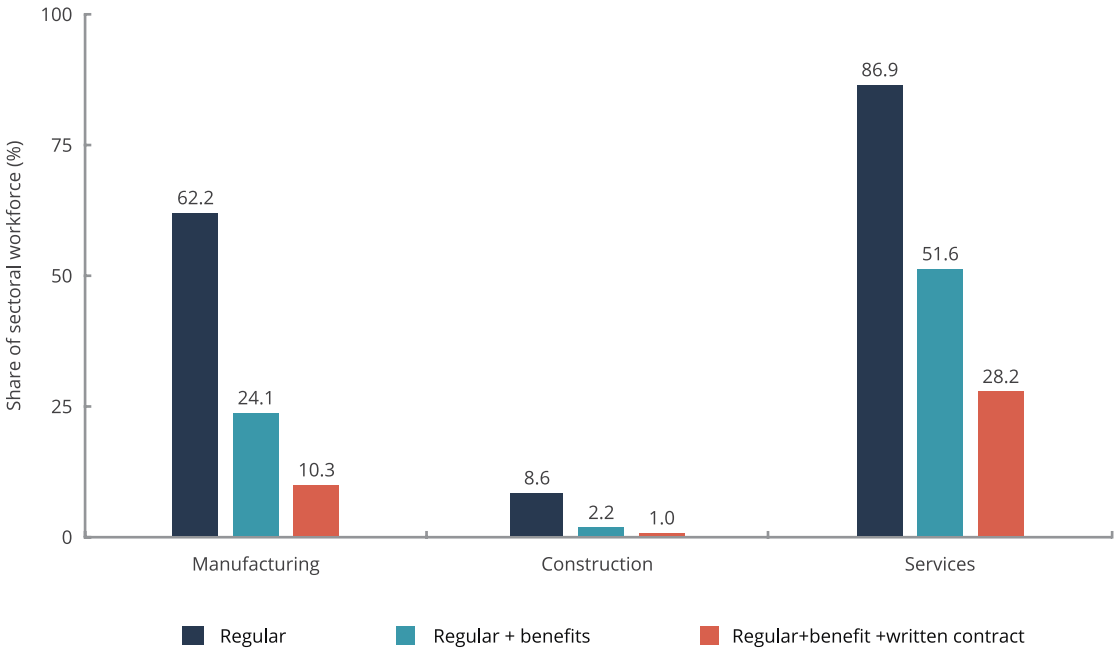
Successive NSS-EUS rounds reveal that the proportion of regular workers among non-agricultural wage workers has been slowly inching upwards, and is now just under 60 per cent. However, this number falls to 30 per cent if we include access to some kind of benefit as a condition of formal employment. If we include benefits and a written contract, then a mere 17 per cent of wage workers in the Indian economy had access to formal employment in 2015.

When one recalls that just under half of the workforce is self-employed, and therefore not in this system of classification, the full extent of precarity in the economy becomes clear.

Delving further into the non-agricultural sector, we see major differences between manufacturing and services (Figure 4.2). The service sector shows a much greater degree of formalisation than manufacturing, presumably a result of the dominance of the public sector. In manufacturing, although the share of regular workers increased between 1999 and 2011, it has subsequently declined from 68 per cent to 62 per cent. In services, the share is higher, but stagnant at around 87 per cent.

We see a precipitous drop in the share of formal workers if we tighten the definition of formality to include some benefits and a written contract. In 2015, the share of the workforce with a written contract and some social security benefits, was 10 per cent in manufacturing and 28 per cent in services.

Figure 4.2 : ***Levels of Formality in Manufacturing, Construction and Services***



Sources and notes: **LB-EUS 2015. *Only wage workers are considered. See text for details on worker categories.***

The construction sector is overwhelmingly informal. Even by the broadest definition of formality, less than 10 per cent of the construction workforce can be termed formal. This is of concern because, as discussed in Chapter Two, construction is now as large an employer in absolute terms as the entire manufacturing sector.

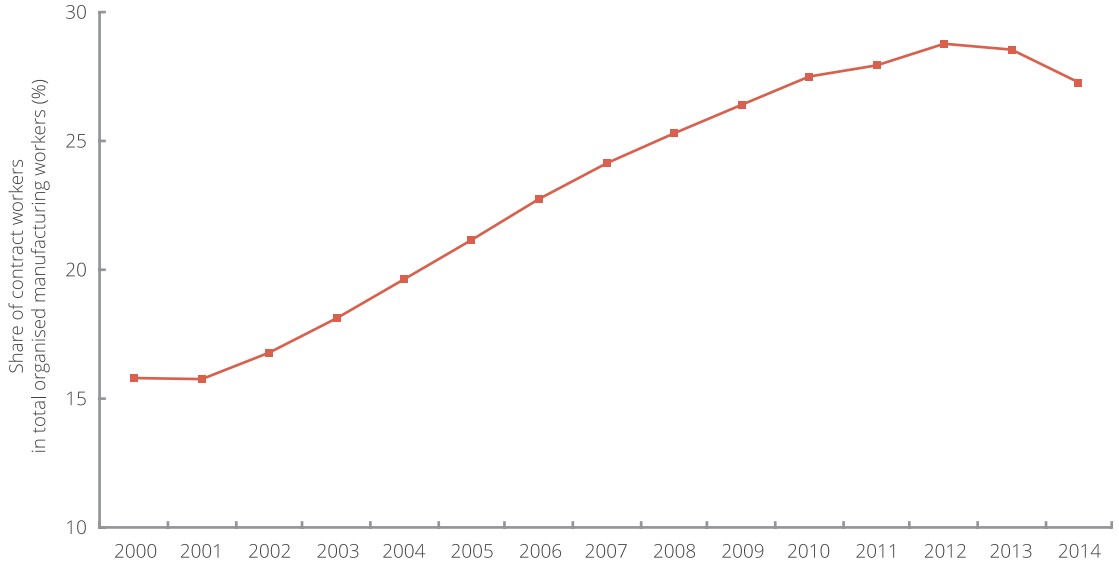
One important channel of informalisation of work since the early 2000s, particularly in the manufacturing sector, has been the gradual replacement of workers directly employed by organised sector firms, with workers hired via third-party contractors (known as 'contract workers'). These workers are generally not eligible for the range of benefits that direct workers receive. They are also more easily retrenched than direct workers. This phenomenon has been widely commented on in the policy and academic literature. See Das, Choudhury, and Singh (2015) for a recent review.

Factory-level data from the Annual Survey of Industries (ASI) show that, between 2000 and 2012, such informal work within the organised sector grew at 13.8 per cent per annum, while overall non-agricultural employment, as measured by the NSS-EUS, grew at approximately 5 per cent per annum in the same period. Figure 4.3 shows the informalisation in the organised manufacturing sector in terms of the share of contract workers in total workers.

There is very little data available on contract workers in the service sector before 2011. As mentioned earlier, since 2011−12, the Labour Bureau has included contract workers as an employment status in its EUS, after modifying the NSS-EUS system of classifying such workers. While these surveys have now been discontinued, we hope that the new PLFS being conducted by the NSSO will continue this practice. In the absence of such data, it is difficult to estimate the extent of informality in the organised service sector.

Interestingly, the increase in contract workers in manufacturing has slowed since 2011. However, case studies reveal that, at least in some industries, contract workers are being replaced by newer types of precarious workers such as trainees and apprentices. Amit and Nayanjyoti (2018) present evidence of this from the automobile industry in the Gurgaon-Manesar belt (see Box 4.2). The conclusion that contract workers may be being replaced by other forms of precarious labour is also supported by the fact that there is no increase in the proportion of formal employment commensurate with a decline in the proportion of contract workers in organised manufacturing as a whole over this period.

Figure 4.3 : ***Contract Workers Have Increased Sharply in Organised Manufacturing in the Past Two Decades***



Sources and notes: ***ASI factory-level data, various years.***

Box 4.2 / **Organising for Better Work in the Gurgaon-Manesar Industrial Belt**

The Gurgaon–Neemrana industrial belt has been a prominent centre of most of the militant labour unrests in our country during the last two decades. For example, the Maruti Manesar plant workers struggle in 2011–12 was effectively the first one that seriously challenged the contract system and pushed for the permanency of contract workers to limit the internal segmentation of the workforce. Permanent workers struck work and occupied the plant in October 2011 as 1200 contract workers, who earlier had joined the permanent workers in their strike in June and September, were not reinstated by the management.

Ultimately, as a result of the protest, the contract workers were re-employed. Subsequently, when a union was formed in February 2012, the first demand that they put forward before the management in the Charter of Demands was the permanency of all contract workers. When the management refused to negotiate on this demand, the bargaining process suffered, tension escalated and, finally, on 18 July 2012, a clash ensued between workers and management and their bouncers, leading to the death of one HR manager and the subsequent crackdown on workers. A micro study suggests that the factors listed below best explain poor employment conditions despite rapid growth and the genesis of industrial conflicts.

1. Increased mobility of capital and setting up multiple units of the same company in the industrial belt and the easy shifting of production from older to newer units (with more flexible labour regimes), and even closure of old units, have reduced workers control over production, effectiveness of strikes, and bargaining capacity of unions in the older units. It has reduced associational bargaining power of workers.

2. New technology has made workers more disposable and has given management more control over production. Mechanisation and automation has made skill and experience increasingly redundant and has threatened workers' job security. Intensification of work demands a young docile workforce instead of older experienced people. Continuous industrial restructuring has reduced the structural bargaining power of workers.

3. Crisis of agriculture, jobless growth and India's demographic dividend has created a large pool of unemployed youth waiting outside factory gates, ready to work even under worsening working conditions.

4. Informalisation of work in formal sectors like automobile has shifted the burden of production from permanent to various categories of temporary workers. Permanent workers have become an even smaller minority of the workforce. Their union thus has less control over production. The new categories of workers like diploma trainee, student trainee, diploma apprentices are not even recognised as 'workers', and thus have minimal connection with the union process.

5. The increasing connectivity inside the production process under 'just-in-time' and 'lean' production modes and the competitiveness of the auto sector cannot contain any form of workers' subjectivity that influences the production process and creates uncertainty. It has resulted in projecting the union process and 'collective bargaining' of workers as an 'act of indiscipline'. Thus labour 'dispute' is now seen as a 'law and order' problem. It has led to the criminalisation of labour struggles, and to repression in place of mechanisms of reconciliation and mediation.

6. The gradual dismantling of labour protections, pro-corporate changes in labour law and weakening of institutions (such as the labour department, labour courts and tribunals) has led to the weakening of the process of collective bargaining.

Sources and notes: ***Amit and Nayanjyoti (2018)***

In general, field studies are far more informative regarding conditions of work and new forms of precarious labour as compared to secondary surveys. In addition to the study of the automobile industry, another SWI background study by Anumeha Yadav (2018) investigates labour relations in Rajasthan's small-scale sandstone mining industry. This is a large export industry operating almost entirely on casual labour. The author finds that workers with several years of experience earn around ₹250 per day for strenuous and skilled work. This is not only below a decent living wage, but also below even the state minimum wage (Box 4.3). Another field study by Natarajan and Joseph (2018), on domestic workers in Bangalore, also yields rich insights into the process of collectivisation among this informal workforce (Box 4.4).

Box 4.3 / **Precarity among Mining Workers in Rajasthan**

Mehr is 27, and has worked in sandstone quarries in Bijolia for the past 11 years—ever since he was a teenager. He joked that when he dropped out of school after class six, instead of a regular honours degree, he earned a 'bhataa ki degree'— an honours in studying stone!

As per the Rajasthan government notification of January 2018 on minimum wages in various schedules of employment, a 'stone dresser' is considered a semi-skilled worker, and after three years of work qualifies for a skilled work wage. Someone like Mehr, who has done skilled work for five years, is considered fit for minimum wages in the 'highly skilled' category. On the day we interviewed him, Mehr had negotiated ₹3 for each foot of sandstone he cut. By evening, he had cut 80 feet stone, earning ₹240—much less than the government minimum wage of ₹283 a day for 'highly skilled' work.

The negotiation over wage rates varied with the age and skill of the workers, and other factors. But several workers who had migrated to Bijolia in distress saw little choice in the work and how the wages were fixed.

In Nayanagar, Mukesh Chand Jatav, a Dalit, in his mid-30s, who had migrated to Bijolia earlier that month from Karoli, 300 kilometers away, had managed to negotiate a higher than average rate for himself, at ₹5 per foot. He had done so by offering to work in 'wastage' sandstone that had been discarded by mine owners as it was harder to process. Though he had managed to chisel and cut 100 feet sandstone by the end of the day, and negotiated a higher wage, he made only ₹500, half of which he would split with a co-worker, thereby still not making even a minimum wage for the strenuous work.

Jatav said that he had little choice when it came to doing the sandstone work as he had no savings, even though he had started the annual migration to the quarries in Bijolia with his father 21 years ago when he was 15. Now, at 36, he had returned to work in the quarries after a gap of five years. Ill-health had prevented him from taking up quarry work in the gap years.

He recounted that back home, in Hindon, the family had witnessed three of their neighbours, who also worked in the quarries, die of tuberculosis. 'Khoon daal daal ke mar gaye (They coughed up blood, and died).' Two of them were his age, and one had been younger than him, he said.

'My father, who has worked as a stone carver and knows the conditions of work, warned me "Don't go back to the khadaan (quarry) even if we starve", but I had to come back to earn two rupees...to eat,' said Jatav. Jatav's family owns no land. The previous year they had sharecropped with another Dalit family in Karoli in exchange for one-fourth share of the wheat and barley crop but the produce was already exhausted.

In another part of Bijolia, under a sky laden with monsoon clouds, in a field converted into a sandstone 'stock' in Sukhpura, Madan Lal Bhil, a frail Adivasi farm worker who looked older than his 52 years, said that, in the last farming season, he had spent ₹13,000 growing wheat as a sharecropper with a Gujjar farmer. But the yield had been only half of the usual produce, he said, leaving the family with just five sacks of grains at the end of the season. Bhil had a farm loan of ₹7000 and had sown paddy this time, but he, too, felt compelled to work as a quarry labourer till the crop was ready for harvesting.

Sources and notes: ***Excerpted from Yadav (2018)***

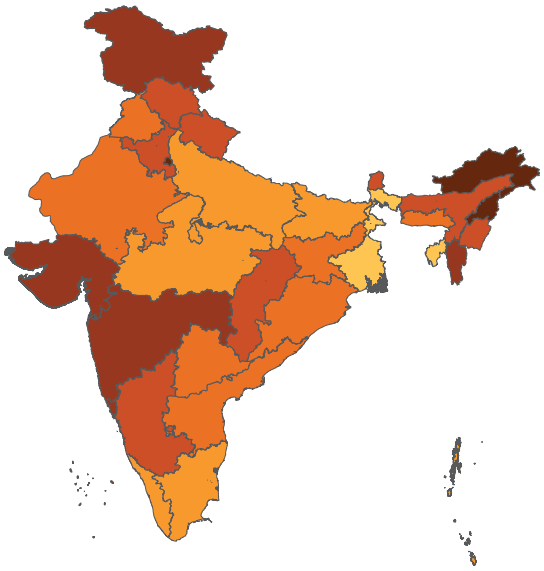
4.1.3 / Variation in Formality across States

Indian states also display large variations in the degree to which their workers are protected or unprotected by labour legislation. The north-eastern states show above average levels of formalisation (using the definition of a regular worker), while states such as Bihar and Jharkhand show very low levels. Figure 4.4 shows the proportion of formal workers based on all three definitions across India in 2015.

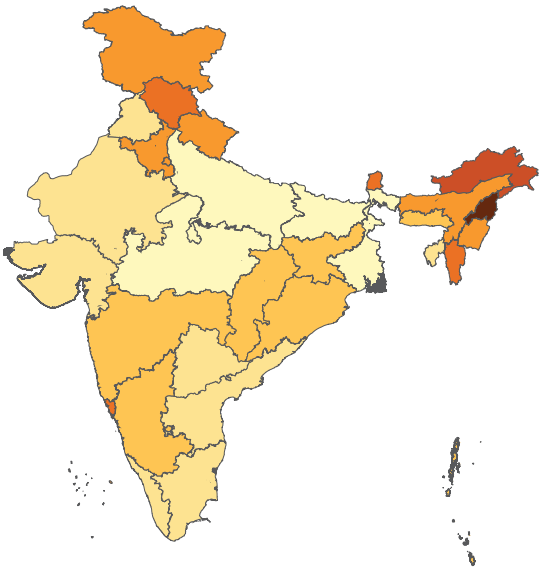
There are some noteworthy patterns here. Surprisingly, the southern states (with the exception of Kerala) are seen to be lagging behind states such as Maharashtra and Gujarat in degree of formality, especially under the stricter definitions. This is possibly due to the presence of large public-sector units or other large organised sector manufacturing plants in the western states. It should also be borne in mind that large commercial cities such as Mumbai or Surat may bias state-level statistics. That said, however, given the general impression of the southern states as being relatively more progressive, this is a pattern worth investigating further.

Figure 4.4 : ***Levels of Formality across States***

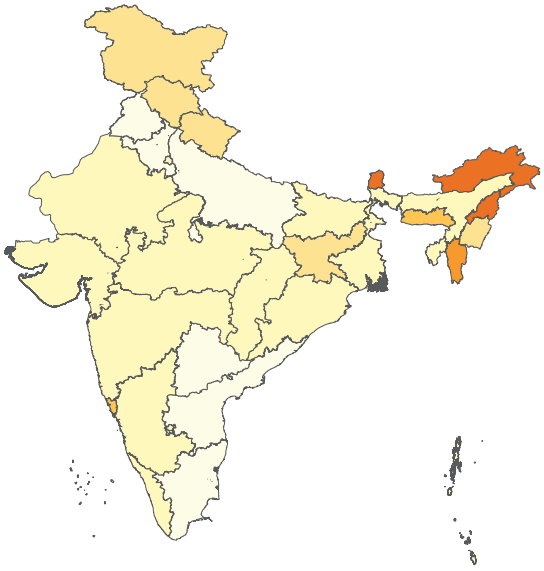
Regular workers

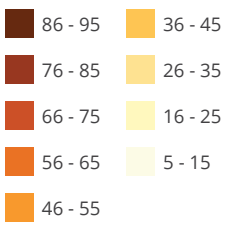


Regular workers + Benefits



Regular workers + Benefits + Written contract





Sources and notes: ***LB-EUS 2015. Scale indicates per cent workers in a category. See Appendix Table A4.2 online for data.***

Box 4.4 / '**Apartment as Factory Gate': Challenges to Collective Action among Domestic Workers in Bangalore**

Domestic workers (DWs) have emerged as the second largest urban informal workforce next only to 'home based workers'. As per NSS-EUS 2011, it is estimated that 4.1 million workers work in the households of others. Of these 2.8 million are women.

This large and vulnerable workforce presents a unique challenge to collective action. DWs are not independent producers (like peasants or artisans), but neither are they wage-workers in the conventional sense. The workplace of DWs is the private home and typically one worker has multiple employers. This raises fundamental questions over who the union faces as the employer of the DWs and whether the private home ought to be considered a workplace where appropriate laws will apply.

It also has implications for their subjective identities. Organizers frequently exhort DWs to think of themselves as significant actors in the economy telling them, 'You are playing an important role in the economy because the middle class have to go to work. If you don't go [to work] then their productivity and income suffers'. Organizers also confront the fact that worker consciousness is only one among class, caste, gender, ethnicity, and other identities.

Three kinds of organizations working with DWs can be identified – the conventional NGOs, who work exclusively for welfare rights for DWs, and focus on demands from the state, the older-style trade unions, who are less likely to work within the residential areas of DWs, preferring instead to facilitate state schemes and welfare, and the labour-NGOs. The third variety is the focus of this study. Authors find them to be creative at organising, combining the nimbleness of an NGO with a clarity of the need to foreground the DW as a worker with rights.

An interesting finding is that an increasing number of DWs prefer apartments and gated communities to individual houses. This is partly due to the perception that employers in apartments are more affluent and willing to pay more. But it is also about respect and dignity. 'We come and go like officers,' says one worker. This has led to a segmentation of the workforce with the consequence that it is difficult to standardise wages across the sector. Since the prevailing wages in apartment complexes are above the Karnataka government minimum wages, unions have left wage negotiations to the workers.

An interesting aspect of this changing work pattern is that apartment entry and exit logs have become important as evidence of employment in case of disputes. Since almost all apartment and gated communities maintain such registers for visitors, the apartment gates have now been transformed into 'factory gates' for DWs. Further, as some apartments have provided ID cards for all workers working on their premises, DWs and their unions have begun to use this as collective bargaining tools wherein a local Resident Welfare Association (RWA) can be asked to form norms of work that apply to all registered DWs in an apartment complex.

Sources and notes: ***Natrajan and Joseph (2018)***

The regional dimension also brings to attention how closely or distantly the three definitions vary with each other (see Table A4.2 of Appendix online for details). Specifically, while the three indices generally move together, there are instances of very wide differences. Thus, in Chandigarh, for example, there is a sharp difference between formalisation by definition 1 (about 72 per cent of workers) and definition 3 (around 20 per cent), while for Arunachal Pradesh, the corresponding numbers are 86 per cent and 56 per cent respectively.

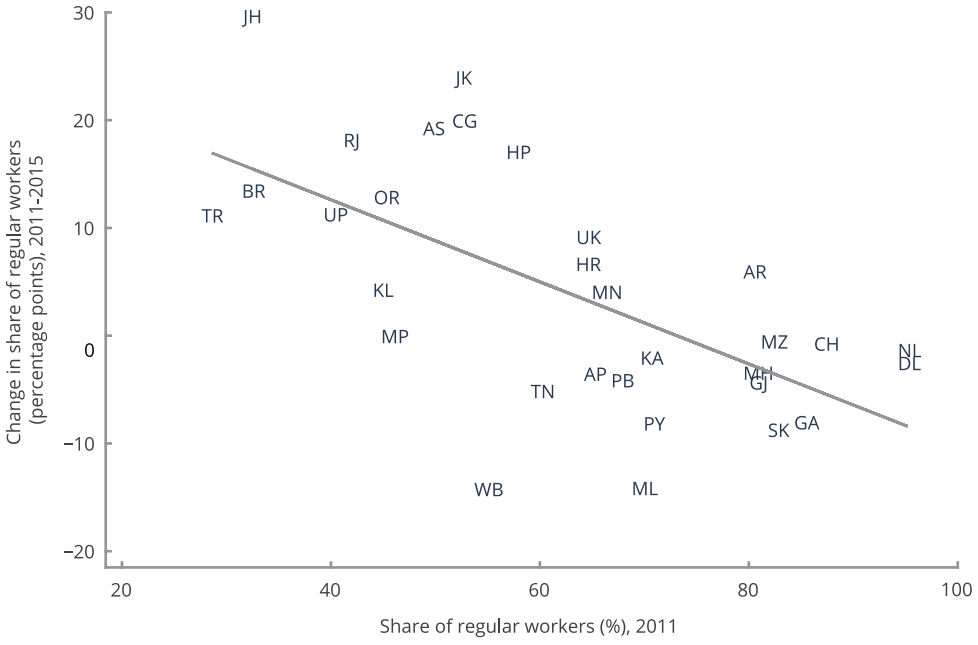
Tamil Nadu and Kerala perform comparably on the first two indices, but Kerala has twice the frequency of workers with written contracts. Maharashtra vastly outperforms West Bengal on the first two indices, but the two are much more closely matched on the third criterion. Once again, these patterns do not always conform to our preconceived notions of the status of labour in different states. Valuable lessons may lie in such diversity when it comes to learning what works and what does not in protecting labour rights.

The state-level variation in informality also reveals another intriguing relationship. Figure 4.5 shows the change in proportion of formal workers between 2011 and 2015 against the initial level of formality (Formal 1). The negative relationship provides some indication that we may be observing formality 'convergence' between states. Those states with below-average formalisation rates initially are seeing greater formalisation and vice versa. Note that this does not necessarily imply an overall increase in formality of the workforce at the all-India level, which, as we saw earlier, is mostly stagnant. Rather, it implies a redistribution of the formal workforce between states. This question, too, needs further investigation.

4.2 / An Overview of Wage Trends

The key measure of the quality of jobs is, perhaps, how remunerative they are. Broadly speaking, wage levels have remained low and have grown slowly over the last three decades, especially compared to the rates of GDP growth. In this chapter, we are concerned mainly with trends seen since the last NSS-EUS in 2011–12. For a comprehensive review of wage trends until 2011, as well as an overview of the literature on wage rate, see Papola and Kannan (2017) and the related report by ILO (2018).

Figure 4.5 : ***Formality Convergence? Level of Formalisation across States in 2011 versus Change between 2011 and 2015***



Sources and notes: **NSS-EUS 2011, LB-EUS 2015.** ***Refer list of state codes.***

Several formidable challenges confront an analysis of wages in India. First, Indian labour statistics, especially in recent years, do not provide comparably collected wage data for every sub-sector of the economy. Departing from the NSS practice of collecting rupee amounts for wages, the LB-EUS categorised earnings instead. In any case, it is likely that household surveys under-sample the rich, leading to underestimates of average wage levels as well as wage growth. On the other hand, administrative sources, such as income tax data, leave out a large number of wage earners who earn too little to be in the tax net.

When it comes to firms, while there are enterprise or factory surveys for the manufacturing sector as well as for unorganised services, we have no standard source of wage data for the organised services sector. This is a key lacuna that needs urgent attention. It is reported that the Ministry of Statistics and Programme Implementation is working on an Annual Survey of Services[2].

In addition to the LB-EUS, we use data from the ASI, the NSS unorganised enterprise surveys, and the RBI's rural wage rates series to summarise features of wage distribution in the organised manufacturing, unorganised manufacturing and services, and agriculture sectors respectively.

Nationally, 67 per cent of households reported monthly earnings of ₹10,000 or less in 2015. 98 per cent earned less than ₹50,000 per month.

The headline statistic from the LB-EUS is that, nationally, 67 per cent of households reported monthly earnings of up to ₹10,000 in 2015. In total, 98 per cent earned less than ₹50,000 per month (Table 4.2). In the age of corporate compensation packages exceeding ₹20 lakh a year, it is sobering to learn that earning over ₹1 lakh per month puts a household in the top 0.2 per cent of income earners in the country.

Even among regular wage workers, more than half (57 per cent) have monthly average earnings of ₹10,000 or less, well under the Seventh Central Pay Commission (CPC) minimum stipulated salary of ₹18,000 per month. As for casual workers, 59 per cent have monthly earnings of up to ₹5,000. If we assign the mid-point of a category as the approximate rupee amount earned, we find that regular workers report monthly earnings of ₹13,562, while non-regular workers earn ₹5,853 per month.

To take the analysis forward, we use the current lowest wage recommended by the Seventh CPC, namely, ₹18,000 per month, as the standard for a 'decent wage'. Our justification for this is that this wage is carefully calculated by the basic needs approach (Annexure Table on page 65 of Ministry of Finance 2015). It has also figured prominently in the Swaminathan Commission recommendations for agriculture, as well as among the demands of several national trade unions.

Table 4.2 : ***Average Monthly Earnings by Employment Status, 2015–16***

	Self Employed (%)	Regular Wage/ Salaried (%)	Contract Workers (%)	Casual Labour (%)
Up to ₹5000	41.3	18.7	38.5	59.3
₹5001 to ₹7500	26.2	19.5	27.9	25
₹7501 to ₹10,000	17.4	19	20.3	12
₹10,001 to ₹20,000	11.1	23.6	11	3.5
₹20,001 to ₹50,000	3.5	17.7	2.1	0.3
₹50,001 to ₹1,00,000	0.4	1.4	0.1	0
Above ₹1,00,000	0.1	0.2	0	0

Sources and notes: **LB-EUS 2015.**

[2] Government mulls launching annual survey of services in July.

4.2.1 / Recent Wage Trends across Sectors

Table 4.3 gives real annual wage rates (in 2015 rupee values) by sector over a 15-year period for the years that data are available. A key caveat is that, for agriculture, we report annualised daily wage rates assuming employment is available for 25 days of the month, and 12 months of the year, at that rate. However, this is mostly not the case in practice. Hence, these numbers should be treated as an upper bound. The most one can say is that, if work was available all year round, then earnings in agriculture would be comparable to earnings in the rest of the unorganised sector.

Between 2000 and 2015, real wages grew in every sector. In agriculture and in unorganised manufacturing and services, the compounded annual growth rate (CAGR) was roughly 3 per cent. For comparison, Papola and Kannan (2017) find that between 1994 and 2011, real wages for regular workers grew at 3 per cent per annum, and for casual workers at 3.85 per cent (see Table 4.18 in their study).

In the most recent period, from 2010 to 2015, real wages grew faster, at a CAGR of 2 per cent for organised manufacturing, 4 per cent for unorganised manufacturing, 5 per cent for unorganised services, and 7 per cent for agriculture. However, the high figure for agriculture is anomalous and not the general trend, as we discuss later. Papola and Kannan report that wages (across all sectors) grew at an annual rate of 6.15 per cent for casual workers and 4 per cent for regular workers between 2004 and 2011.

From 2010 to 2015, real wages grew at a CAGR of 2 per cent for organised manufacturing, 4 per cent for unorganised manufacturing, 5 per cent for unorganised services, and 7 per cent for agriculture.

Thus, overall, it appears that real wages have been growing at around 4–6 per cent per annum over the past decade.

Note that these data exclude the organised services sector, where anecdotal evidence suggests that industries such as Information Technology, Telecommunications, and Finance have experienced much higher rates of wage growth.

Interestingly, wage growth in organised manufacturing has been slower than that in the unorganised sector — at 0.8 per cent over the whole period since 1999, and 1.7 per cent in the most recent period. As a result, the wage gap between the organised and unorganised manufacturing sectors has narrowed. Unorganised sector wages were 37 per cent of organised sector wages in 2000, but 50 per cent in 2015.

It is worth investigating the performance of the organised manufacturing sector a little further. Data on wages for this sector are also available at a higher frequency. Since this sector consists of relatively larger factories, it is also important to distinguish between wages of production workers (the majority) and the wages of supervisors, managers, and other administrative staff. In the early 2000s, when the real wage rate for production workers entered a period of stagnation, compensation continued to rise steadily. The gap between the two has grown since then, even after the wage rate started rising post 2006 (Figure 4.6). To the extent that managerial staff, especially at the top levels, received non-wage

Table 4.3 : ***Annual Real Wage Rates per Annum across Sectors (2015 Prices)***

Year	Agriculture (₹)	Organised Manufacturing (₹)	Unorganised Manufacturing (₹)	Unorganised Services (₹)
1999	49,014	1,22,118	45,227	46,027
2005	47,781	1,20,760	50,488	-
2010	55,491	1,28,173	57,928	56,150
2015	77,571	1,39,576	70,848	71,776

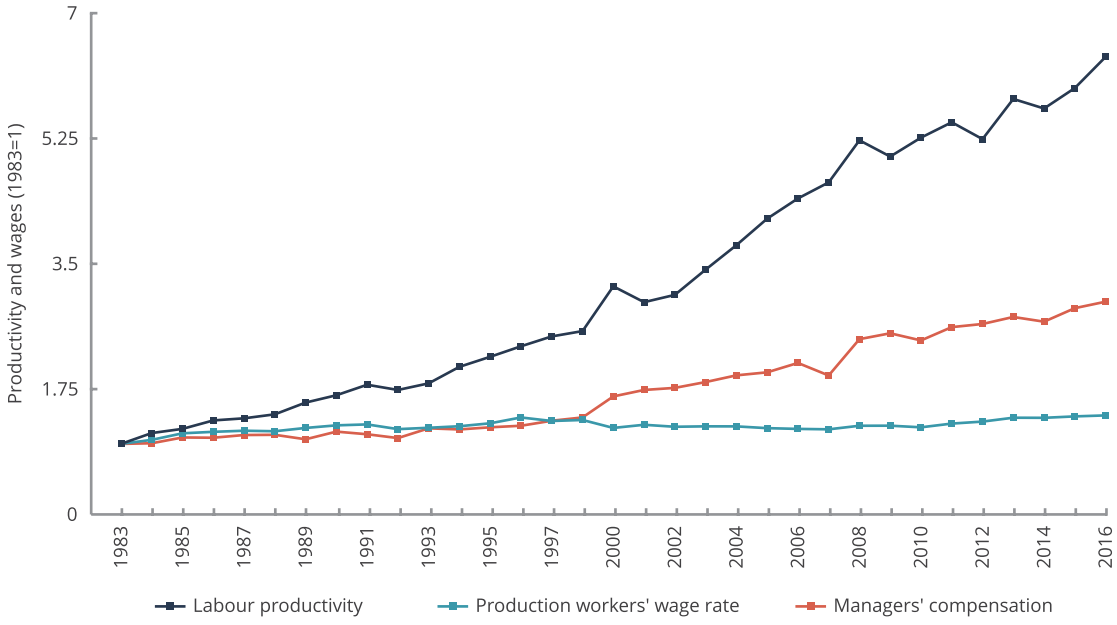
Sources and notes: ***Agriculture – Rural Wage Rates for Men (daily) from RBI Database on Indian Economy, Organised Manufacturing – ASI various years, Unorganised Manufacturing and Unorganised Services – NSS enterprise surveys, various years.***

compensation, such as stock options, this gap may be an underestimate. This divergence has not received much attention in the literature. We discuss the divergence between wages and productivity in the next section.

A possible factor contributing to keeping wages down in this sector is the rise in the proportion of contract workers. Field studies reveal that contract workers are paid a fraction of permanent worker wages, often for similar work (see Box 4.2) (Amit and Nayanjyoti 2018). Comparing wage earnings of contract versus direct workers in secondary data, such as ASI, also shows that contract workers earn considerably less (Kapoor and Krishnapriya 2017). In fact, comparison of ASI data with NSS unorganised manufacturing data shows that contract worker wages lie somewhere between the wages of direct workers and their unorganised sector counterparts (Table 4.4).

The rise in the proportion of workers employed via third-party contractors, reported earlier, together with the lower wage rates for these workers, has important implications for both quality of work as well as the share of labour in value added. We address this issue later in this chapter.

Figure 4.6 : ***Productivity and Managerial Compensation Have Risen Much Faster than Workers' Wages in Organised Manufacturing***



Sources and notes: ***ASI NIC 2 digit (EPWRFITS) various years. Wages and salaries deflated by CPI-IW and GVA deflated by WPI (manufactured products). Managers' compensation is calculated as the difference between "emoluments" and "wages to workers". Labour productivity is ratio of real GVA to all employees.***

Table 4.4 : ***Annual Real Wages for Different Types of Workers in the Manufacturing Sector***

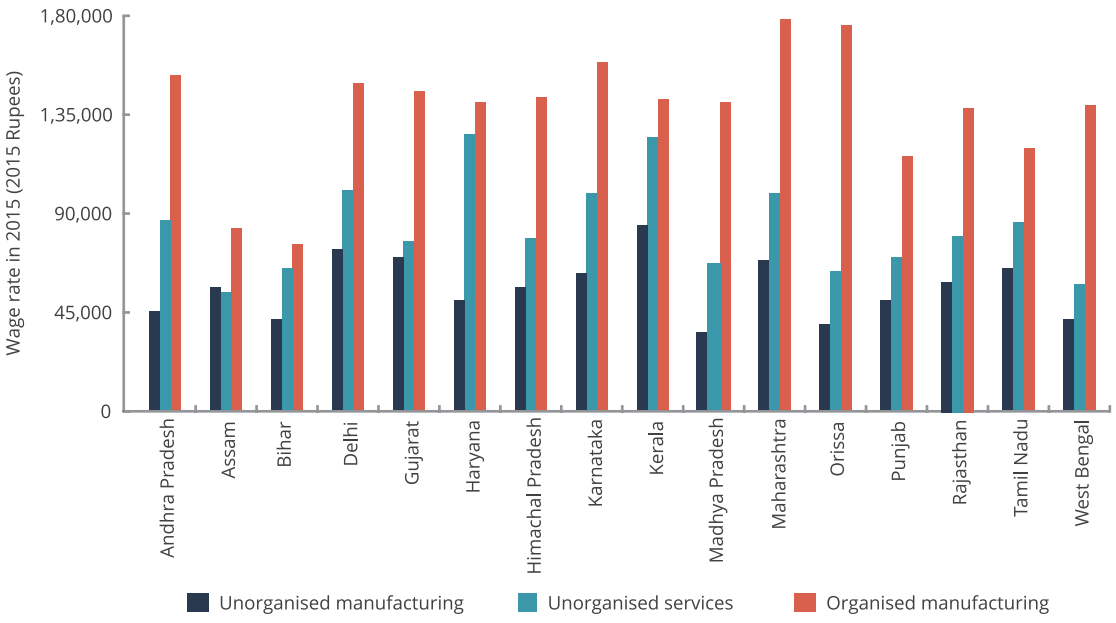
Year	Organised Manufacturing, Non-Contract (₹)	Organised Manufacturing, Contract (₹)	Unorganised Manufacturing (₹)
1999	3,53,724	65,129	45,226.71
2006	3,40,652	72,894	50,488.10
2011	3,42,425	77,355	57,927.59
2015	3,91,013*	1,06,621*	70,848.24

Sources and notes: ***Organised Manufacturing – ASI various years; Unorganised Manufacturing – NSS Enterprise Surveys various year. Nominal wages have been deflated by CPI-IW (base 2015). * Due to data availability, organised manufacturing wages reported are for 2014.***

4.2.2 / Recent Wage Trends across States

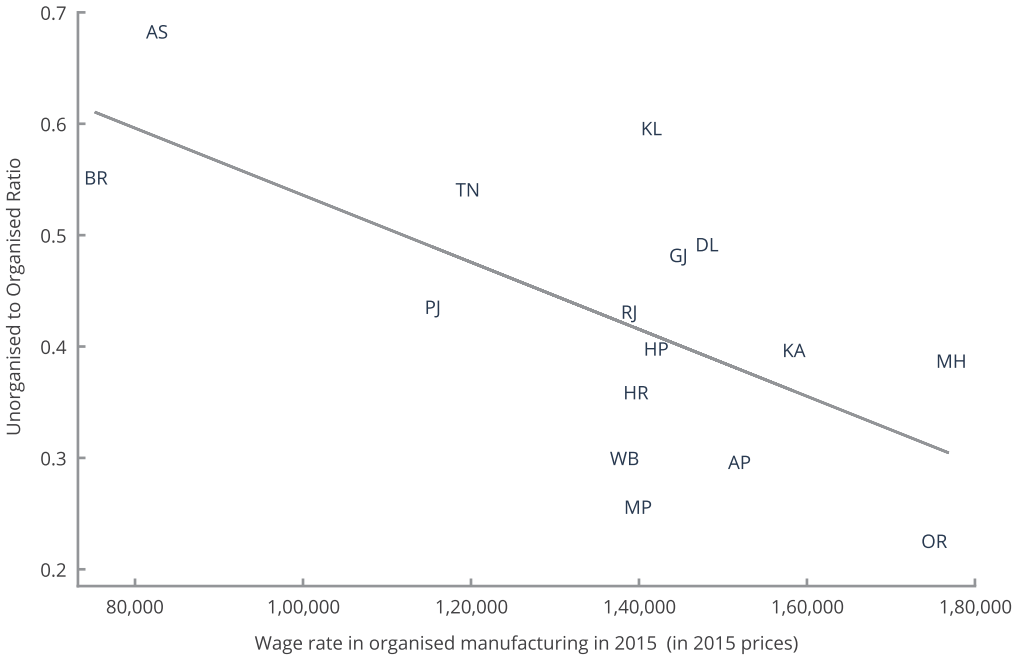
There are large variations between states in wage rates. Figure 4.7 shows annual wage rates in three sectors for selected major states. Several points are worth emphasising. First, in every state shown, wage rates in unorganised services are higher than in unorganised manufacturing. Second, the organised–unorganised wage gap in manufacturing varies widely across states. Unorganised manufacturing wage rates are 68 per cent of organised rates in Assam, but only 22 per cent in Odisha. Note that this way of defining the gap means that the gap is larger when the number is smaller. In general, the wage gap appears to be higher for states in which

Figure 4.7 : ***Annual Wage Rates in Various Sectors across States***



Sources and notes: ***ASI Principal Characteristics 2015, NSS Unincorporated Enterprises Survey 73rd Round, 2015***

Figure 4.8 : ***The Gap between Organised and Unorganised Wages Grows with Organised Sector Wages***



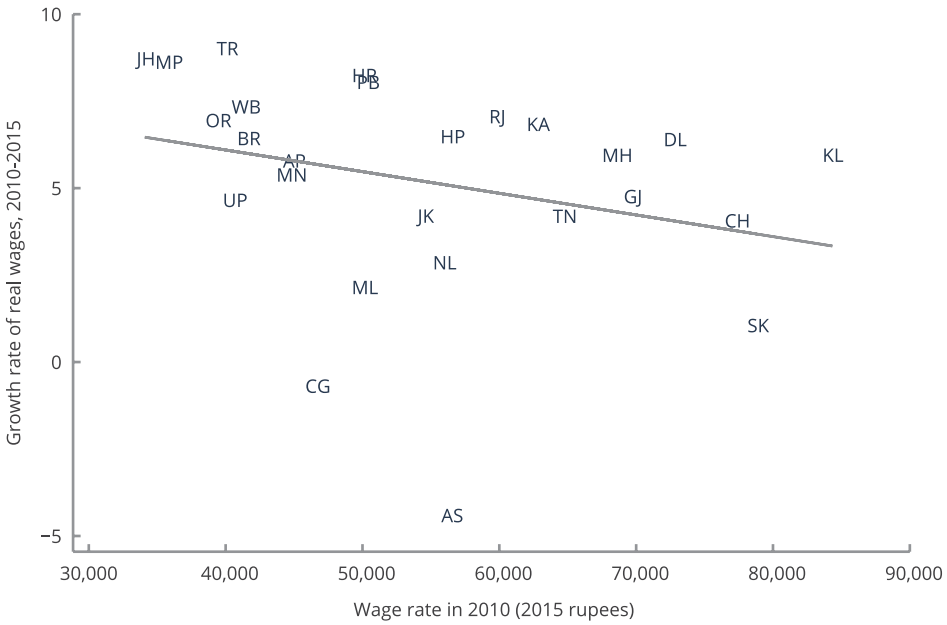
Sources and notes: ***ASI Principal Characteristics 2015, NSS Unincorporated Enterprises Survey 73 Round 2015. Refer list of state codes.***

organised sector wages are high (Figure 4.8). Another way to understand this relationship is by hypothesising that unorganised sector wages are uncorrelated with organised sector wages. It is worth investigating the role played by differences in labour productivity as well as labour market institutions across states in driving this difference.

A third interesting aspect is the differences across states in the nature of the unorganised sector labour market. This is manifested in the variation across the trend line in Figure 4.8. For example, Madhya Pradesh and Kerala are very similar in terms of the level of organised manufacturing wage rate, but the wage gap is much worse in MP compared to Kerala.

Figure 4.9 : ***Weak Evidence of Wage Convergence across States***

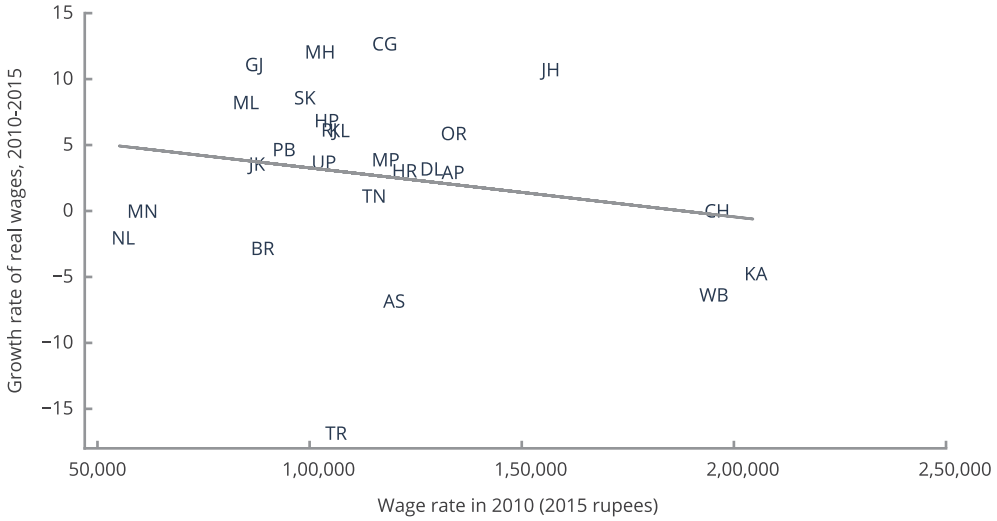
a) ***Unorganised Manufacturing***



b) ***Unorganised Services***

Sources and notes: ***NSS Unincorporated Enterprises Survey, 67 th Round (2010) and 73 rd Round (2015). All wages are deflated using state-level CPI (rural and urban combined), base year 2015. Refer list of state codes. Union Territories have been excluded. The relationship is statistically significant only for unorganized services.***

c) ***Organised Manufacturing***



Sources and notes: ***ASI Principal Characteristics 2010 and 2015. All wages are deflated using state-level CPI (rural and urban combined), base year 2015. Refer list of state codes. Union Territories have been excluded. The relationship is not statistically significant.***

Given such variation in the level of wages (in all three sectors), a question of interest is whether states with lower wage rates in 2011 experienced faster rates of growth in the subsequent years, resulting in wage convergence between states. Once again, this can be tested by plotting the initial level of the wage rate against the subsequent rate of growth. Figure 4.9 shows three different graphs for the three sectors. There is some evidence that states with lower initial levels of wage rate displayed a higher rate of growth in subsequent years. But the relationship is statistically significant only for unorganised services (see Table A4.3 of online Appendix for data).

Of course, this analysis does not tell us whether this is due to faster growth of wages in existing industries or changes in the industrial composition of a state as wages vary significantly across industries. But regardless, this issue is worth investigating further.

The 2016−17 Economic Survey reported divergence between states on the basis of per capita GDP for the period 2004 to 2014. While the two analyses are not comparable due to different variables and time periods, it is worth asking if the story of divergence would change if we examine the period after 2011 separately.

4.3 / Sectoral Analysis of Wage Rates

In this section, we delve deeper into each sector. We report industry-level wages for 2011 and 2015 together with the share of workers accounted for by that industry, for three sectors: organised manufacturing, unorganised manufacturing, and unorganised services. As mentioned earlier, there is no national-level official data on the organised services sector. Here we present highlights from the data. The complete data are available in Table A4.4 to A4.6 of the online data Appendix.

4.3.1 / Manufacturing

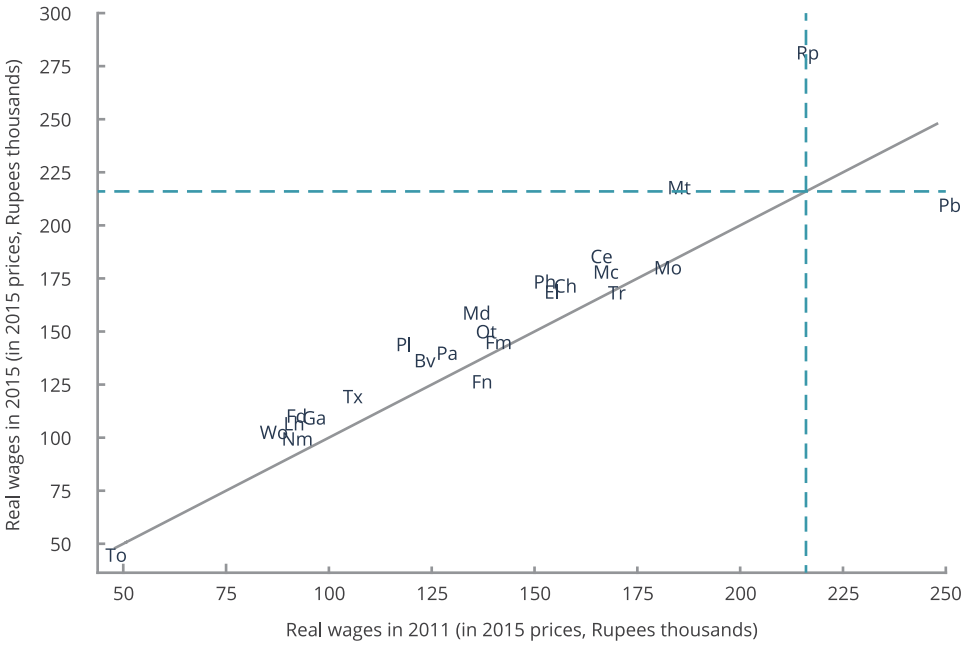
As we saw earlier, at the all-India level the annual real wages for all workers in organised manufacturing have risen at a CAGR of around 2 per cent. To place this in a historical context, it should be noted that, since 2007, a long period of stagnation in wage rates of production workers has been reversed. However, there is significant variability across industries, in terms of the quality as well as quantity of employment they support.

Figure 4.10 compares real wages in major manufacturing industries in 2011 and 2015.[3] Most of the points lie above the diagonal showing that most industries have posted real wage increases in this period. However, despite sustained growth, especially since 2008, wages are significantly below what the government stipulates as the lowest acceptable wage, namely the seventh CPC Group D salary of ₹18,000 per month (Ministry of Finance 2015). This is so for almost all industries with the exception of metals, repair, and publishing. Overall, even in 2016, 90 per cent of the industries did not provide wages sufficient to cover the need-based minimum for all its workers. On the other hand, wage rates for supervisors uniformly exceed the CPC threshold (data not shown).

The situation is worse for the unorganised sector. Around two-thirds of the workers in unorganised manufacturing are concentrated in five industries: food products, textiles, wearing apparel, non-metallic minerals, and fabricated metal products. In most of these industries, wages are lower than the overall average. Wage rates differ extensively across industries from a low of ₹53,415 per year in tobacco (a heavily female-dominated industry, see Chapter Five) to a high of ₹1,07,511 per year in other transport equipment (both rates are in 2015 prices).

Wages have grown at faster rates in almost all unorganised industries, compared to organised industries. In aggregate, overall wages in unorganised industries grew by 4 per cent annually from ₹57,928 to ₹70,848. Despite this, in almost all industries, mean yearly wage rates are less than half the CPC minimum. In fact 99.97 per cent of workers earn less than the stipulated wage (data not shown).

Figure 4.10 : ***Real Wages Have Grown in Most Organised Industries but Are Still Well Below Minimum Salary Recommendation of the Central Pay Commission***



Sources and notes: ***ASI NIC 2 digit (EPWRFITS) various years. Nominal values are deflated by CPI-IW (base 2015). Dashed lines represent the minimum annual salary recommended by the 7th Central Pay Commission (Rs. 18000 per month x 12). Solid line represent equal wages between 2011 and 2015. Fd-Food, Bv-Beverages, To-Tobacco, Tx-Textiles, Ga- Garments, Lh-Leather, Wo-Wood, Pa-Paper, Md-Media, Ch-Chem, Ph-Pharma, Pl-Plastics, Nm-Non-Metal, Mt-Metal, Fm-Fab. Metal, Ce-Comp-Electronics, El-Electrical, Mc-Machinery nec, Mo-Motor vehicles, Tr-Transport, Fn-Furniture, Ot-Other Manu, Rp-Repair, Pb-Publishing.***

[3] Note that our definition of the wage rate is wages per worker. The ASI data also allow the calculation of wages per person per day worked. A comparison of the two can give insights into prevalence of overtime in this sector, but this is not examined here.

Figure 4.11 : ***Wage Convergence across Industries in the Manufacturing Sector***

Sources and notes: ***ASI NIC 2 digit (EPWRFITS) various years, NSS Unincorporated Enterprises Survey 67th Round (2010) and 73rd Round (2015). NIC (2008) 2-digit Industries. Nominal wages are deflated using CPI-IW (base 2015).***

Here the question arises whether relatively lower paying industries have experienced faster rates of wage growth, resulting in convergence in manufacturing wages. Figure 4.11 shows initial wages in 2011 plotted against the CAGR between 2011 and 2015 for various industries in the organised (red) and unorganised (blue) sectors. As expected, unorganised wages are lower. But two points are worth noting. First, the spread in organised sector wages is much greater than unorganised sector wages. Second, and even more interestingly, there is evidence for convergence in both sectors, albeit stronger in the unorganised than the organised.

We can therefore conclude that, overall, there is both a narrowing of the wage gap between the organised and unorganised sectors (as reported in the previous section), as well as a convergence across industries within each sector.

4.3.2 / Services

Based on the data supplied by the NSS enterprise surveys, we are able to offer our analysis of only the unorganised part of the service sector. We find that wage rates have grown in most industries, but are still far below what is considered desirable. In this sector, employment is dominated by retail and wholesale trade, food and beverage services, and education, which together account for over 60 per cent of employment. Given that the sector often acts as a sink for employment and is the largest source of employment after agriculture, the rate of wage growth is of special interest from a welfare perspective.

Overall the sector experienced a 5 per cent CAGR for wages between 2011 and 2015, higher than unorganised manufacturing. Despite sustained growth, however, once again, what is striking is the extent to which these wages fall below the CPC Group D salary. In almost all industries, mean yearly wage rates are less than half or even quarter the suggested minimal wage, with around 99.5 per cent of the workers earning below the mandatory wage (see Table A4.6 in online Appendix for details).

Taken together, we see that wage rates lie far below the CPC minimum in all the three sectors studied here. This can probably account for the extremely high demand for government employment seen all over the country.

Finally, we reiterate that there is no recent nationally representative data on wage rates in the organised services sector. This is a matter of concern since industries such as finance, insurance, IT, and others, have experienced very rapid growth in value-added in the past few years. The employment and wage effects of this growth are, however, much less known.

For corporate India, in general, analysis of the CMIE data suggests that wage growth has been declining since 2006 (Vyas 2017), which, in turn, suggests a general weakness in employment generation.

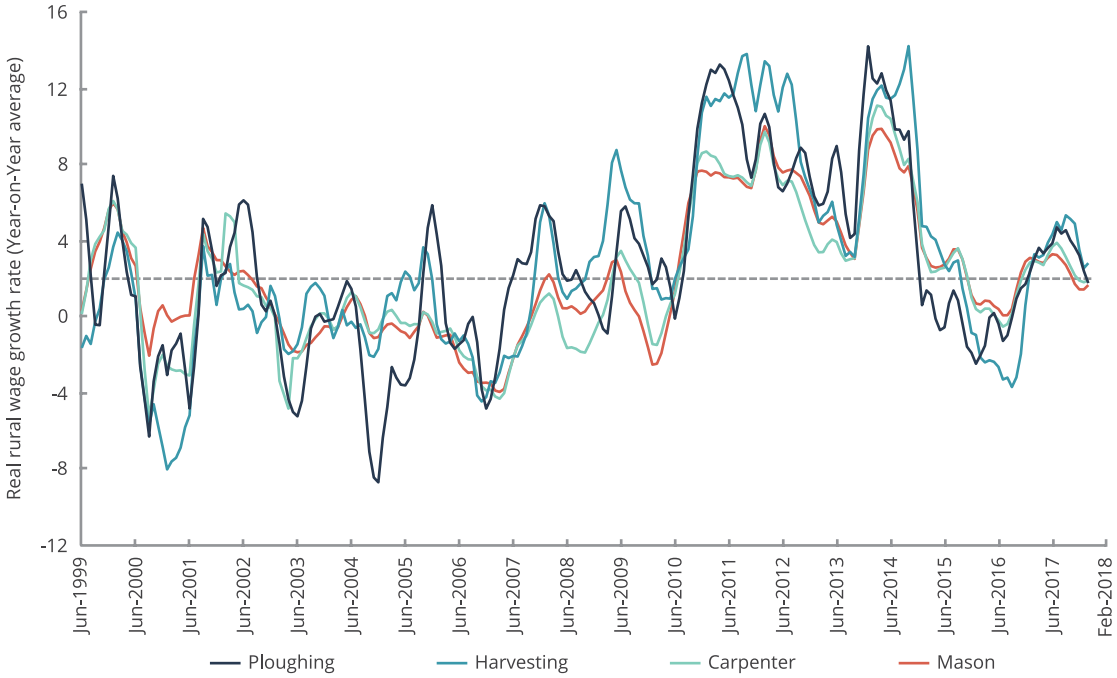
4.3.3 / Agriculture

Despite the prevalence of self-employment in agriculture, wages have increasingly become an important source of income for farm households also. The NSS Situation Assessment of Farmers Survey (Ministry of Statistics and Programme Implementation 2014) showed that for households with 2.5 acres of land or less (75 per cent of all households), 20 per cent report wages as their primary income source. This number goes up to 35 per cent for households owning an acre or less. Wages also constitute an important secondary income source for those farm households whose primary income comes from own cultivation.

The rate of rural wage growth collapsed in 2014.

In the past few years, the lack of wage growth is seen most acutely in rural areas, where the period since 2014 has seen dramatically lower growth than the preceding period. From 2010 to 2014, rural wage growth was 8 per cent per annum in real terms, very close to the growth rate of GDP during the period. But this was, it seems, an exceptional period since growth was far slower both before and since. The rate of rural wage growth (in agriculture and non-agricultural occupations) collapsed in 2014 and is still far below the desired rate as per the most recent data (February 2018) (Figure 4.12).

Figure 4.12 : ***Growth Rate of Real Wages for Selected Occupations for Men in Rural India***



Sources and notes: ***RBI Database on the Indian Economy. Year-on-year growth rates are shown. Nominal values are deflated using CPI-AL (base 2005).***

What is a 'desired' rate? Recall that rural wages, like wages in many urban informal activities, are very low. For an income of around ₹7,000 a month to reach the CPC minimum, it would have to more than double. Indeed, doubling of farm incomes by 2022 has been one of the key promises of the current NDA government. Even at the rate of 10 per cent growth per year, incomes double only every seven years. Thus, either doubling of incomes, or fulfilling the recommendations of the Swaminathan Commission that the net take home income of farmers should be comparable to those of government servants, would require sustained growth of wages for several years at very high rates.

But there is another issue to consider when discussing agricultural wages, which applies to an extent to the unorganised sector in general. Employers generally cope with higher labour costs by raising prices. But the structure of agricultural markets is such that producers have almost no price setting power. All available data indicate that farmers are increasingly buying more expensive inputs while having to sell their output for low prices, often at less than the cost of production. This is because markets are monopsonistic, the product is perishable, and transaction costs of transportation and storage are high. So selling at the price being offered by a trader at the local market is the only option for the farmer. This has resulted in country-wide agitations by farmers for higher minimum support prices.

It appears that small and marginal farmers (the majority of farmers) are caught in a double bind. As wage-earners, their wage growth has collapsed. As employers, when wages are growing strongly, they do not get a high enough price to recover the costs of production.

Finally, because food prices are linked directly to urban wages, an increase in the agricultural wage rate is viewed with concern in policy circles as an indicator of inflationary pressures to come. It is worth pointing out here that reforming the political economy of the agricultural supply chain and ensuring adequate storage and transportation facilities can both reduce the pressure on wages and also bring down food prices.

Between 1982 and 2015, the real wage rate grew at 1.4 per cent per year while productivity grew at 5.5 per cent per year in real terms. This points to a large shift in favour of capital.

4.4 / Wage-Productivity Divergence and Labour Share

The Indian economy has experienced significant changes in production techniques in every sector over the past few decades. As discussed in Chapter Two, production has become more capital intensive or less labour intensive in nearly every manufacturing industry in the organised and unorganised sectors. This is true, if to a lesser extent, for agriculture and services as well. Technical change and increased use of machinery in production generally raises the productivity of labour, a development to be welcomed in the process of structural change.

However, increases in the productivity of labour do not translate automatically into higher wages and improved standards of living for the majority of workers. Particularly for labour surplus economies like India, wages tend to remain depressed even as productivity rises. This tends to increase inequality in the economy, at least for a period of time until surplus labour supplies are exhausted. But simply waiting for growth to eventually deliver higher wages is not a feasible option in a democracy. Further, if growth is relatively 'jobless', then absorption of surplus labour and increase in wage rates is further delayed.

A second key variable in determining the link between productivity and wages is the quality of labour market institutions. These include the regulatory framework of labour laws and collective bargaining institutions. In this respect, the Indian scenario leaves much to be desired. While, on paper, India possesses strong laws to protect the interests of labour, in practice, these are rarely binding (Nagaraj 2018). The vast majority of the unorganised sector workforce is already outside the scope of these institutions. But unfortunately, even in the organised sector, labour market institutions have eroded in strength over the years.

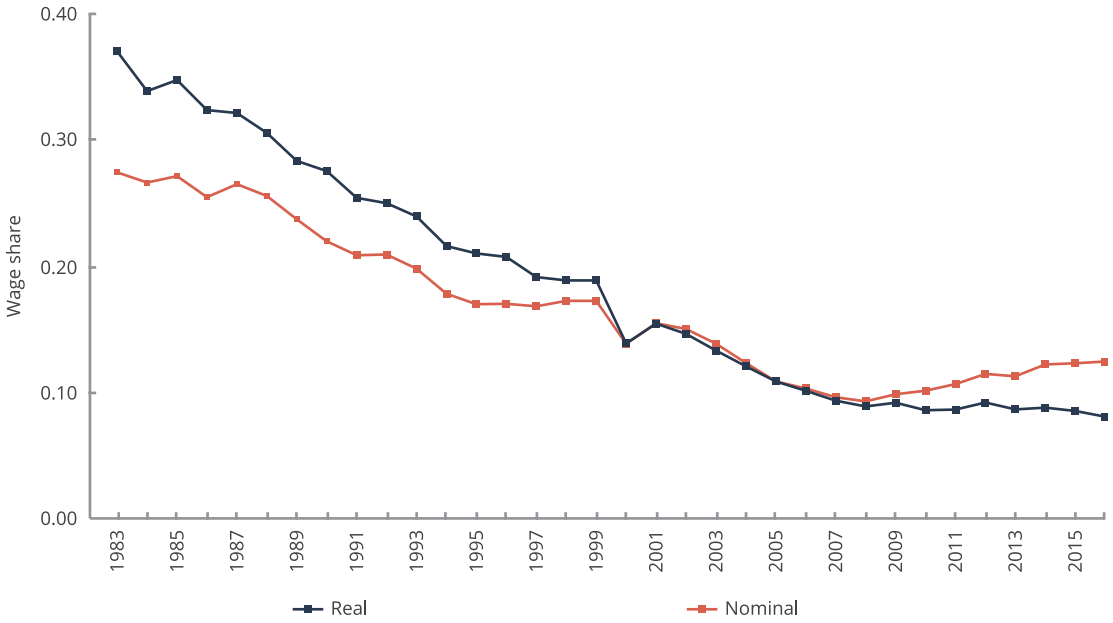
As a consequence, we see a large divergence between wages and productivity. In organised manufacturing, between 1982 and 2015, labour productivity, as measured by real gross value added per employee went up by six times. But how were the productivity gains shared

between labour and capital? On average, the real wage rate grew at 1.4 per cent per year over the entire period, while productivity grew at 5.5 per cent per year in real terms. This points to a large shift in distribution in favour of capital (Figure 4.6).

Taken together, these trends, namely, rising capital intensity and growing divergence between productivity and wages, are expected to cause a fall in the share of value-added going to workers in the form of wages and emoluments, with the bulk going to owners of capital.

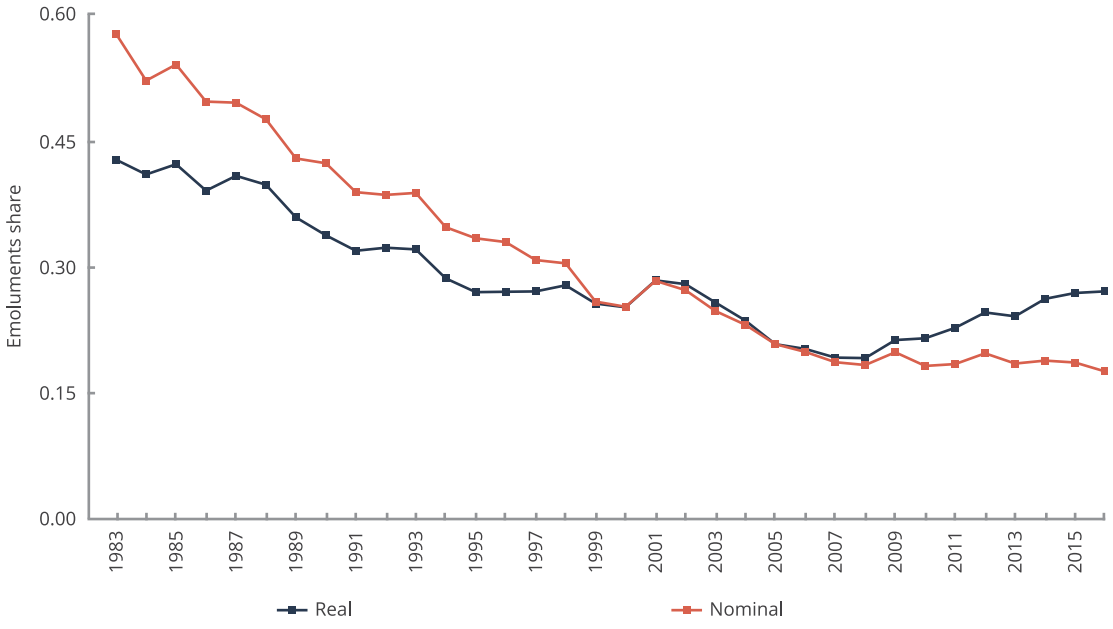
Figure 4.13 : ***Falling Labour Share in Organised Manufacturing***

a) ***Wages***



Sources and notes: ***ASI NIC 2 digit (EPWRFITS) various years. Wage share = wages paid to production workers / GVA . Nominal wages have been deflated by CPI(IW), base = 2015.***

b) ***Emoluments***



Sources and notes: ***ASI NIC 2 digit (EPWRFITS). Emolument share = wages and salaries paid to all employees / GVA. Nominal emoluments have been deflated by CPI(IW), base = 2015.***

Indeed, in nominal terms, from the early 1980s until 2007, the share of wages in organised manufacturing fell steadily from a high of just over 35 per cent to a low of just under 10 per cent, a very large drop (Figure 4.13a). Since then, in nominal terms, there has been a small improvement in the wage share, driven largely by more rapidly rising wages as well as falling capital productivity, possibly resulting from excess capacity following the investment boom of the mid-2000s (Basole and Narayan 2018). In real terms, due to the divergence between price indices for consumers (CPI) and producers (WPI), the wage share does not rise post-2007, but plateaus and stops falling. The trends are the same for emoluments (which include managerial compensation) but the levels are higher as expected (Fgure 4.13b).

Trends aside, however, the salient fact is that the share of labour in Indian manufacturing is very low today. Three recent studies have taken a closer look at the falling wage share and tried to identify its determinants (Kapoor 2016; Abraham and Sasikumar 2017; Jayadev and Narayan 2018). The first study shows that contractualisation, increasing number of female (and hence relatively lower paid) permanent workers, and intensification of work (more days of work in place of more workers) have contributed to the falling wage share. In this respect, it is worth pointing out that the average annual work hours in India are among the highest in our cohort of comparison countries, exceeded only by Pakistan.[4]

Analyses by Jayadev and Narayan (2018) and Kapoor (2016) suggest that capital intensive technology, a shift in industrial organisation towards more output being produced by low labour cost firms, and the reduction in the bargaining strength of labour are all robust correlates of this decline. In addition, Ahsan and Mitra (2014) use CMIE data to suggest that trade liberalisation has been another cause of the general decline.

The decline in India's labour share runs counter to the typical trajectory with development first noted by Kravis (1962) and Kuznets and Murphy (1966), who suggested that the process of development and the attendant structural change, as labour moved out of agriculture into organised wage labour, urbanisation and demographic changes, would serve to increase the labour share. Indeed, Rodriguez and Ortega (2001) find that, in general, manufacturing labour shares increase with the level of income of a country, while Jayadev (2007) finds that labour shares economy-wide do so as well. India's decreasing labour share during a period of very rapid growth is then a serious anomaly.

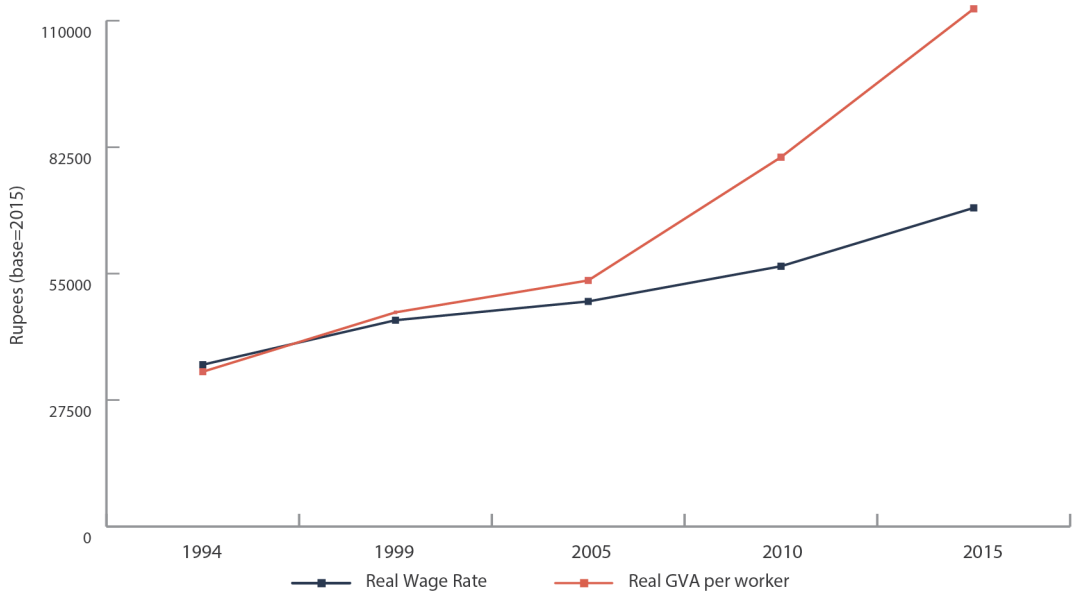
It should be remembered that here we are talking about a small part of India's labour force, and, indeed, a small part of India's industrial labour force. The clear majority of workers, even in industry, are not captured by these surveys. However, given that these data are from the organised sector, they are likely to reflect that part of the industry where the conditions of work and labour-capital bargain are most favourable for workers. In this respect, a steadily falling labour share goes contrary to the narrative of strong labour laws.

Das, Choudhury, and Singh (2015) note that the strict provisions of the Industrial Disputes Act regarding the hiring and firing of labour have, over the years, been increasingly circumvented by employers via the use of various forms of temporary and contract workers. Nagaraj (2018) similarly notes that proponents of the labour market rigidity hypothesis have mostly relied on the textual reading of the regulatory process, and not its outcome. He asks instead: if the laws are so stringent, why is there such a large divergence between wages and productivity? The answer: ineffectiveness of the laws.

While the divergence between wages and productivity in the organised sector has been noted earlier, we also report here, for the first time, an equivalent divergence as well as declining wage share in the unorganised manufacturing sector. Strikingly, wages per worker and value-added per worker are almost the same until 2005, indicating very little surplus or capital share in this sector (Figure 4.14). Subsequently, productivity has doubled in the next ten years, while wages have grown by around 50 per cent creating a substantial

[4] Average annual hours worked by persons engaged for India.

Figure 4.14 : ***Wage-Productivity Divergence in the Unorganised Manufacturing Sector***



Sources and notes: ***NSS informal and Unincorporated Enterprise Surveys, various rounds (see Methods for details). Nominal values deflated by CPI-IW (base 2015).***

surplus. Correspondingly, however, the wage share has declined from 65 per cent in 2005 to 45 per cent in 2016.

The level of wages, in every sector studied, is still far below a 'decent wage' where the latter is defined as the minimum salary of ₹18,000 per month recommended by the seventh CPC.

4.5 / Conclusion

The Indian economy remains largely an informal economy. The tendency towards formalisation exists, but is weak. Even today, less than 20 per cent of the total workforce consists of regular wage workers. And, within the universe of wage workers, less than 20 per cent have access to some social security benefits and a written contract.

State-level analysis reveals some unexpected findings in need of further investigation. For example, Gujarat and Maharashtra display greater levels of formalisation than the southern states. There is also evidence for a 'convergence' in formality across states.

Wages rates have grown consistently across different sectors with the exception of agriculture. In the non-farm sector, unorganised sector wages have grown faster, closing the gap with the organised sector. But the level of wages in every sector studied, is still far below a 'decent wage', where the latter is defined as the minimum group D salary of ₹18,000 per month recommended by the seventh CPC. This can account for both the vastly over-subscribed nature of public sector employment and the social movements in favour of expansion of job quotas.

Finally, wage growth, particularly in the organised manufacturing sector, is dwarfed by a much larger increase in labour productivity, with a resulting collapse in the labour share of income in this sector. Moreover, wage-productivity divergence and falling wage share are also seen in unorganised manufacturing, albeit to a lesser extent.